

## Business Situation

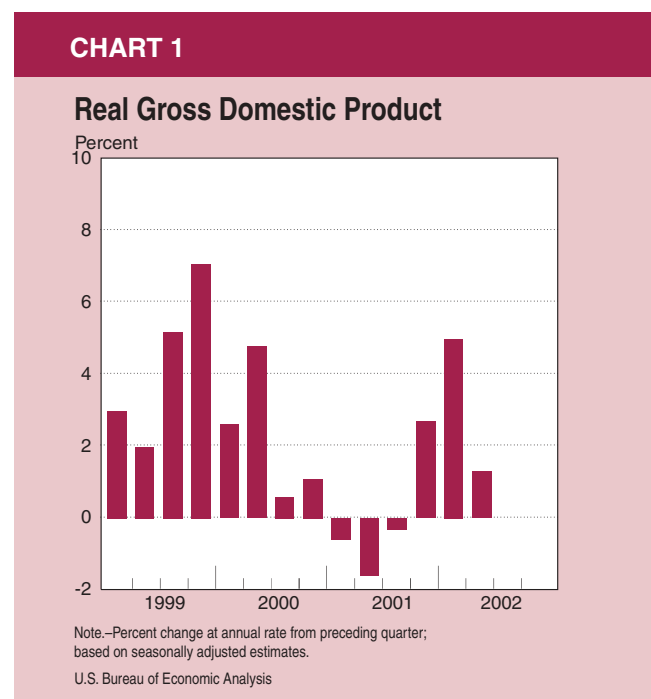
### Final Estimates for the Second Quarter of 2002

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real GDP increased 1.3 percent in the second quarter of 2002, 0.2 percentage point more than in last month’s preliminary estimates (table 1 and chart 1).<sup>1</sup> (Over the past 20 years, the average revision, without regard to the sign, from the preliminary estimate to the final estimate was 0.3 percentage point.) Real final sales of domestic product was also revised up 0.2 percentage point, from –0.3 percent in the preliminary estimate to –0.1 percent in the final. The source data underlying these and other revisions to the NIPAs are discussed in the section “Revisions.”

The picture of the economy shown in the final estimates for the second quarter is similar to that shown in

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (1996) dollars, and price indexes are chain-type measures.

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the preliminary estimates. In both, GDP growth in the second quarter was much lower than the 5.0-percent growth in the first quarter, and in both, the deceleration was mainly accounted for by slowdowns in inventory investment, consumer spending, and government spending.<sup>2</sup> In addition, imports (which are subtracted in the calculation of GDP) accelerated sharply.

According to the final estimates,

- A swing from inventory liquidation to inventory accumulation contributed 1.31 percentage points to GDP growth in the second quarter; in the first quar-

2. In this article, “inventory investment” is shorthand for “change in private inventories,” “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

**Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2002	2001	2002			2001		2002	
	II	III	IV	I	II	III	IV	I	II
<b>Gross domestic product</b> .....	<b>9,392.4</b>	<b>-6.7</b>	<b>62.4</b>	<b>114.4</b>	<b>29.2</b>	<b>-0.3</b>	<b>2.7</b>	<b>5.0</b>	<b>1.3</b>
Less: Exports of goods and services.....	1,065.5	-50.8	-26.2	8.8	34.9	-17.3	-9.6	3.5	14.3
Plus: Imports of goods and services.....	1,552.9	-46.6	-19.8	29.9	75.8	-11.8	-5.3	8.5	22.2
<b>Equals: Gross domestic purchases</b> .....	<b>9,840.8</b>	<b>-1.3</b>	<b>69.5</b>	<b>132.9</b>	<b>62.6</b>	<b>-0.1</b>	<b>2.9</b>	<b>5.6</b>	<b>2.6</b>
Less: Change in private inventories.....	4.9	-3.5	-36.6	69.5	33.8	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>9,826.0</b>	<b>1.6</b>	<b>102.0</b>	<b>72.1</b>	<b>31.6</b>	<b>0.1</b>	<b>4.3</b>	<b>3.0</b>	<b>1.3</b>
Personal consumption expenditures.....	6,542.4	22.9	93.1	49.8	28.6	1.5	6.0	3.1	1.8
Durable goods.....	980.7	10.2	69.4	-16.1	4.8	4.6	33.6	-6.3	2.0
Nondurable goods.....	1,920.9	6.0	16.7	36.4	-0.5	1.3	3.6	7.9	-0.1
Services.....	3,666.2	8.2	19.1	25.6	24.0	0.9	2.1	2.9	2.7
Private fixed investment.....	1,572.6	-17.8	-37.3	-2.0	-3.8	-4.3	-8.9	-0.5	-1.0
Nonresidential.....	1,181.1	-19.3	-35.3	-18.0	-7.3	-6.0	-10.9	-5.8	-2.4
Structures.....	231.7	1.9	-23.6	-9.5	-11.5	2.9	-30.1	-14.2	-17.6
Equipment and software.....	961.4	-23.5	-6.1	-6.6	7.7	-9.2	-2.5	-2.7	3.3
Residential.....	386.1	0.3	-3.3	12.6	2.5	0.4	-3.5	14.2	2.7
Government consumption expenditures and gross investment.....	1,703.3	-4.7	41.2	22.8	6.0	-1.1	10.5	5.6	1.4
Federal.....	608.7	1.7	18.3	10.6	10.9	1.2	13.5	7.4	7.5
National defense.....	395.8	4.1	12.5	10.5	7.3	4.6	14.3	11.6	7.8
Nondefense.....	212.9	-2.4	5.9	0.2	3.6	-4.5	12.1	0.4	6.9
State and local.....	1,094.7	-6.1	23.0	12.2	-4.6	-2.3	8.9	4.6	-1.7
<b>Addendum: Final sales of domestic product</b> .....	<b>9,377.9</b>	<b>-3.8</b>	<b>94.4</b>	<b>54.5</b>	<b>-1.5</b>	<b>-0.2</b>	<b>4.2</b>	<b>2.4</b>	<b>-0.1</b>

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which began on page D-2 in this issue.)

ter, a sharp cut in the pace of liquidation had contributed 2.60 percentage points to growth (table 2).

**Table 2. Contributions to Percent Change in Real Gross Domestic Product**

[Seasonally adjusted at annual rates]

	2001		2002	
	III	IV	I	II
<b>Percent change at annual rate:</b>				
Gross domestic product .....	-0.3	2.7	5.0	1.3
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	0.97	4.05	2.22	1.22
Durable goods .....	0.36	2.45	-0.55	0.16
Nondurable goods .....	0.25	0.73	1.57	-0.02
Services .....	0.35	0.87	1.20	1.08
Gross private domestic investment .....	-0.81	-2.88	2.53	1.16
Fixed investment .....	-0.72	-1.49	-0.07	-0.15
Nonresidential .....	-0.73	-1.33	-0.66	-0.27
Structures .....	0.10	-1.12	-0.44	-0.53
Equipment and software .....	-0.83	-0.21	-0.22	0.26
Residential .....	0.02	-0.16	0.60	0.12
Change in private inventories .....	-0.09	-1.39	2.60	1.31
Net exports of goods and services .....	-0.24	-0.28	-0.75	-1.40
Exports .....	-1.94	-0.99	0.33	1.29
Goods .....	-1.49	-0.56	-0.23	0.99
Services .....	-0.45	-0.42	0.56	0.30
Imports .....	1.70	0.70	-1.08	-2.69
Goods .....	1.17	0.37	-0.40	-2.74
Services .....	0.53	0.33	-0.68	0.05
Government consumption expenditures and gross investment .....	-0.21	1.85	1.04	0.27
Federal .....	0.07	0.80	0.47	0.47
National defense .....	0.18	0.54	0.46	0.32
Nondefense .....	-0.11	0.26	0.01	0.16
State and local .....	-0.28	1.05	0.56	-0.21

NOTE. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

- Consumer spending contributed 1.22 percentage points to second-quarter growth after contributing 2.22 percentage points to first-quarter growth. Consumer purchases of durable goods turned up, and purchases of services increased almost as much as in the first quarter, but purchases of nondurable goods were flat after a sharp first-quarter increase.

- Government spending contributed 0.27 percentage point to growth after contributing 1.04 percentage points. Federal Government spending increased about as much as in the first quarter, but State and local government spending turned down.

The preliminary and final estimates also agree on the following important points:

- Inventory stocks increased after substantial liquidation in each of the preceding five quarters.
- The production of structures turned down, and the production of goods slowed. In contrast, the production of services increased a little more than in the first quarter.
- Imports increased about twice as much as exports.
- The personal saving rate, which is measured as personal saving as a percentage of current-dollar disposable personal income, increased (to 4.0 percent in the final estimate).
- Real final sales of computers turned up. Real motor vehicle output increased less than in the first quarter.

## Revisions

Real exports contributed 0.17 percentage point to the 0.2 percentage point revision to GDP, as exports of services were revised up. Imports, which are subtracted in the calculation of GDP, were revised down and contributed 0.08 percentage point. The effect of these revisions was partly offset by a downward revision to inventory investment, which contributed -0.09 percentage point.

The revision to exports mainly reflected the incorporation (on a "best-change" basis) of revised data on trade in services from BEA's international transactions accounts (table 3).<sup>3</sup> The revision to imports mainly reflected revised Census Bureau data on imports of goods for June. The revision to inventory investment mainly reflected revised Census Bureau data on manufacturing inventories for June.

The price index for gross domestic purchases increased 2.3 percent, 0.1 percentage point more than the preliminary estimate. The revision was mainly in the price of financial services purchased by consumers; it reflected the incorporation of revised producer price indexes from the Bureau of Labor Statistics and newly available data from the Federal Deposit Insurance Corporation and the Federal Reserve Board.

Real disposable personal income (DPI) increased 3.6 percent in the second quarter, 0.1 percentage point less than the preliminary estimate. An upward revision to the implicit price deflator for personal consumption expenditures, which is used to deflate DPI, more than offset an upward revision to current-dollar DPI.

The release of the final estimate for the second quarter marked the implementation of the new revision schedule that was announced in the GDP news release on June 27. According to this schedule, the final estimates for a quarter now include revised estimates of wages and salaries for the preceding quarter that incorporate the Bureau of Labor Statistics' latest tabulations from the State unemployment insurance program. As

a result, more reliable information is available to data users in a more timely manner, and revisions to wages and salaries in the annual NIPA revision will be reduced.

The revised estimate of wage and salary disbursements in the first quarter shows an increase of \$26.4 billion (in current dollars), \$7.4 billion less than previously estimated. Disbursements for the second quarter are currently estimated to have increased \$39.2 billion.

**Table 3. Revisions to Change in Real Gross Domestic Product and Prices, Second Quarter 2002**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
<b>Gross domestic product</b> .....	<b>1.1</b>	<b>1.3</b>	<b>0.2</b>	<b>2.8</b>
Less: Exports.....	12.3	14.3	2.0	4.6
Goods.....	16.4	15.9	-0.5	-0.9
Services.....	3.4	10.7	7.3	5.1
Plus: Imports.....	22.8	22.2	-0.6	-2.1
Goods.....	28.5	27.9	-0.6	-1.7
Services.....	-1.5	-2.1	-0.6	-0.4
<b>Equals: Gross domestic purchases</b> .....	<b>2.7</b>	<b>2.6</b>	<b>-0.1</b>	<b>-2.9</b>
Less: Change in private inventories.....				-2.4
<b>Equals: Final sales to domestic purchasers</b> .....	<b>1.3</b>	<b>1.3</b>	<b>0.0</b>	<b>-0.7</b>
Personal consumption expenditures.....	1.9	1.8	-0.1	-1.4
Durable goods.....	2.2	2.0	-0.2	-0.5
Nondurable goods.....	0.1	-0.1	-0.2	-1.0
Services.....	2.7	2.7	0.0	0.1
Private fixed investment.....	-1.2	-1.0	0.2	0.8
Nonresidential.....	-2.6	-2.4	0.2	0.4
Structures.....	-17.7	-17.6	0.1	0.1
Equipment and software.....	3.1	3.3	0.2	0.4
Residential.....	2.3	2.7	0.4	0.4
Government consumption expenditures and gross investment.....	1.4	1.4	0.0	-0.1
Federal.....	7.7	7.5	-0.2	-0.3
National defense.....	7.6	7.8	0.2	0.1
Nondefense.....	7.7	6.9	-0.8	-0.4
State and local.....	-1.8	-1.7	0.1	0.3
<b>Addendum:</b>				
Final sales of domestic product.....	-0.3	-0.1	0.2	5.0
Gross domestic purchases price index.....	2.2	2.3	0.1	.....
GDP price index.....	1.1	1.2	0.1	.....

NOTE: The final estimates for the second quarter of 2002 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for June, bank services data for the first quarter, and brokerage services data for the quarter.

*Nonresidential fixed investment:* Revised construction put-in-place for May and June.

*Residential fixed investment:* Revised construction put-in-place for May and June.

*Change in private inventories:* Revised manufacturers' and trade inventories for June.

*Exports and imports of goods and services:* Revised data on exports and imports of goods and services for the first quarter and new data for the second.

*Government consumption expenditures and gross investment:* Revised State and local construction put-in-place for May and June.

*Wages and salaries:* Revised private wages and salaries for the first quarter, and revised employment, average hourly earnings, and average weekly hours for June.

*GDP prices:* Revised export and import prices for April through June, revised unit-value index for petroleum imports for June, and revised prices of single-family houses under construction for the quarter.

3. Incorporating the source data on a best-change basis provides accurate measures of the change in the estimates for all periods, but results in levels of the estimates that are not fully consistent with the source data. In general, BEA incorporates source data on best-change basis in order to preserve accurate estimates of growth and consistent time series. (For more information, see the box "Incorporating Source Data on the Basis of Best Change," in Eugene P. Seskin and David F. Sullivan, "Annual Revision of the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 80 (August 2000): 16.)

## Gross National Product

Real gross national product (GNP) increased 0.4 percent in the second quarter, 0.9 percentage point less than real GDP (table 4).<sup>4</sup> GNP increased less than GDP because income receipts from the rest of the world increased less than income payments to the rest of the world. The increases in receipts and payments were more than accounted for by increases in profits.

“Command-basis” GNP—which measures the purchasing power of goods and services produced by the U.S. economy—decreased 0.4 percent (chart 2). The contrast between the decrease in this measure and the increase in GNP reflects a deterioration in the terms of

trade.<sup>5</sup>

The national saving rate, which is measured as gross saving as a percentage of GNP, was unchanged at 15.5 percent. It had decreased in the six preceding quarters from a peak of 18.5 percent in the third quarter of 2000.

5. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers’ profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

**Table 4. Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level		Change from preceding quarter							
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2002
	II	III	IV	I	II	III	IV	I	II	
<b>Gross domestic product</b> .....	<b>9,392.4</b>	<b>-6.7</b>	<b>62.4</b>	<b>114.4</b>	<b>29.2</b>	<b>-0.3</b>	<b>2.7</b>	<b>5.0</b>	<b>1.3</b>	
Plus: Income receipts from the rest of the world .....	251.8	-27.9	-30.7	-4.6	9.0	-31.8	-37.4	-7.2	15.7	
Less: Income payments to the rest of the world .....	268.2	-9.9	-51.8	26.1	29.0	-13.6	-58.1	58.7	58.2	
<b>Equals: Gross national product</b> ....	<b>9,376.7</b>	<b>-24.5</b>	<b>83.7</b>	<b>84.0</b>	<b>9.2</b>	<b>-1.1</b>	<b>3.7</b>	<b>3.7</b>	<b>0.4</b>	
Less: Exports of goods and services and income receipts from the rest of the world .....	1,311.9	-80.0	-59.4	3.3	43.9	-20.9	-16.8	1.1	14.6	
Plus: Command-basis exports of goods and services and income receipts from the rest of the world .....	1,345.6	-34.0	-85.3	6.3	24.4	-9.2	-22.2	1.9	7.6	
<b>Equals: Command-basis gross national product</b> .....	<b>9,410.3</b>	<b>21.5</b>	<b>57.8</b>	<b>86.9</b>	<b>-10.3</b>	<b>0.9</b>	<b>2.5</b>	<b>3.8</b>	<b>-0.4</b>	
<b>Addendum:</b>										
Terms of trade <sup>2</sup> .....	<b>102.6</b>	<b>3.6</b>	<b>-1.7</b>	<b>0.2</b>	<b>-1.6</b>	<b>14.9</b>	<b>-6.3</b>	<b>0.8</b>	<b>-6.0</b>	

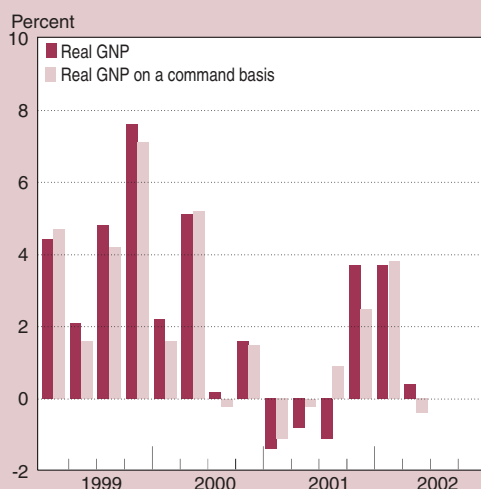
1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

**CHART 2**

### Real Gross National Product



Note. Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

## Corporate Profits

Profits from current production decreased \$12.6 billion (or 1.6 percent at a quarterly rate) in the second quarter after decreasing a similar amount in the first (table 5).<sup>6</sup>

The revised second-quarter estimate is \$0.8 billion more than the preliminary estimate released last month. A \$6.3 billion upward revision to profits of domestic nonfinancial corporations was largely offset by downward revisions to profits of domestic financial corporations and to profits from the rest of the world.

Profits from the rest of the world decreased \$16.9 billion, about half as much as in the first quarter.<sup>7</sup> In both quarters, increased payments by U.S. affiliates of

foreign corporations were only partly offset by increased receipts from foreign affiliates of U.S. corporations.

Profits of domestic financial corporations decreased \$2.5 billion after increasing substantially in the first quarter. The second-quarter drop was accounted for by securities and commodities brokers, regulated investment trusts, and federally sponsored credit agencies. The first-quarter increase was mainly accounted for by real estate investment trusts and credit agencies.

In contrast to the decreases in rest-of-world and domestic financial profits, profits of domestic nonfinancial corporations increased \$6.9 billion—a modest rise, but twice as big as the one in the first-quarter. Both increases reflected increases in output; unit profits were unchanged.<sup>8</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$12.6 billion after decreasing \$36.3 billion.<sup>9</sup> The ratio of cash flow to nonresidential

6. This measure of profits is "from current production" because it excludes nonoperating items, such as special charges and capital gains and losses.

Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables") as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

7. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

8. "Output" here is nonfinancial corporate gross product. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

**Table 5. Corporate Profits**

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2002	2001		2002		2001		2002	
	II	III	IV	I	II	III	IV	I	II
<b>Profits from current production .....</b>	<b>785.0</b>	<b>-34.2</b>	<b>124.2</b>	<b>-13.8</b>	<b>-12.6</b>	<b>-4.7</b>	<b>18.1</b>	<b>-1.7</b>	<b>-1.6</b>
Domestic industries .....	669.9	-15.6	101.4	18.9	4.3	-2.8	18.6	2.9	0.7
Financial .....	210.7	-25.5	55.5	15.4	-2.5	-15.2	39.0	7.8	-1.2
Nonfinancial .....	459.3	9.9	46.0	3.4	6.9	2.5	11.4	0.8	1.5
Rest of the world .....	115.1	-18.6	22.9	-32.7	-16.9	-11.6	16.1	-19.8	-12.8
Receipts (inflows) .....	173.4	-11.2	-11.1	5.3	12.0	-6.3	-6.6	3.4	7.4
Payments (outflows) .....	58.3	7.3	-33.8	37.9	28.9	40.6	-133.6	444.9	98.3
IVA .....	-5.7	15.1	18.3	-25.3	-7.6	.....	.....	.....	.....
CCAdj .....	132.8	16.6	161.2	-28.8	-23.5	.....	.....	.....	.....
Profits before tax .....	657.9	-65.9	-55.2	40.3	18.5	-9.1	-8.4	6.7	2.9
Profits tax liability .....	213.7	-16.9	-25.6	31.8	11.3	-7.9	-13.1	18.6	5.6
Profits after tax .....	444.3	-49.0	-29.6	8.5	7.3	-9.7	-6.5	2.0	1.7
<b>Profits from current production less tax liability .....</b>	<b>571.3</b>	<b>-17.4</b>	<b>149.9</b>	<b>-45.6</b>	<b>-23.9</b>	<b>-3.4</b>	<b>30.5</b>	<b>-7.1</b>	<b>-4.0</b>
Cash flow from current production .....	966.7	40.9	100.5	-36.3	-12.6	4.7	11.0	-3.6	-1.3
<b>Domestic industry profits:</b>									
Corporate profits of domestic industries with IVA .....	537.1	-32.2	-59.8	47.7	27.8	-5.8	-11.5	10.3	5.5
Financial .....	218.5	-28.9	37.4	18.1	0.3	-15.1	23.0	9.0	0.2
Nonfinancial .....	318.6	-3.3	-97.2	29.6	27.5	-0.9	-27.1	11.3	9.4
Manufacturing .....	91.9	-8.1	-40.2	18.0	23.0	-8.2	-44.2	35.4	33.4
Transportation and public utilities .....	17.1	-1.0	-26.8	8.5	2.1	-2.9	-80.6	132.3	13.8
Wholesale trade .....	44.8	4.9	1.0	-5.7	3.6	12.1	2.2	-12.2	8.6
Retail trade .....	86.0	4.8	-2.1	0.9	4.6	6.2	-2.5	1.1	5.6
Other .....	78.9	-4.1	-29.0	7.9	-5.7	-3.7	-27.4	10.3	-6.8
<b>Dollars</b>									
<b>Unit price, costs, and profits of nonfinancial corporations:</b>									
Unit price .....	1.055	0.006	-0.009	-0.002	-0.001	.....	.....	.....	.....
Unit labor cost .....	0.693	-0.002	-0.013	-0.002	-0.002	.....	.....	.....	.....
Unit nonlabor cost .....	0.274	0.005	-0.003	0	0.001	.....	.....	.....	.....
Unit profits from current production .....	0.088	0.002	0.008	0	0	.....	.....	.....	.....

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, slipped from 86.9 percent to 86.6 percent. (During the expansion of the 1990s, the ratio averaged 82.2 percent.)

**Profits with inventory valuation adjustment (IVA).** The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) do not exist at this level. (CCAdj is only available for total financial and total nonfinancial industries.) Consequently, industry profits are best measured by profits with IVA.

For nonfinancial industries, the increase in profits with IVA was dominated by manufacturing; much smaller increases were posted by retail and wholesale trade and by the transportation and public utility group (chart 3). Within manufacturing, increases were widespread; the largest were posted by motor vehicles,

electronic equipment, and “other nondurable goods.”<sup>10</sup> An increase in petroleum profits was modest but noteworthy because it came after five consecutive decreases.

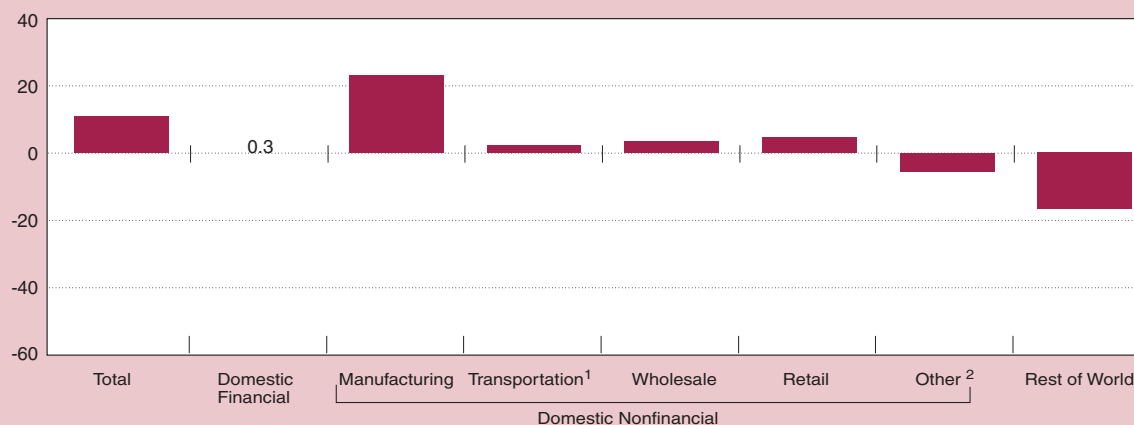
**Profits before tax and related measures.** Profits before tax (PBT) increased \$18.5 billion. This increase in PBT differs from the decrease in profits from current production because PBT is based on inventory and depreciation practices used in tax accounting, whereas the current-production measure is based on depreciation of fixed assets and inventory withdrawals valued at current cost. In the second quarter, most of the difference between the change in PBT and the change in the current-production measure was accounted for by a drop in the capital consumption adjustment.

10. “Other nondurable-goods” manufacturing includes the tobacco, textile, apparel, paper, printing, rubber, and leather industries.

**CHART 3**

**Corporate Profits with Inventory Valuation Adjustment:  
Change from 2002:I to 2002:II**

Billion \$



1. Also includes communications and public utilities.

2. “Other” nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the “finance, insurance, and real estate” group.

Note.—Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis